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TORONTO, August 22, 1979 -- Projected demographic changes will require an additional \$2.3 billion per year in total public expenditures in Ontario by 2001 to maintain existing public servicing levels, according to a report released today by the Ontario Economic Council.

Expenditures on welfare, health, transportation and communications are expected to grow faster than population, the report says, while those on education and protection are likely to grow more slowly.

Public Policy and Future Population in Ontario is a discussion paper prepared for the Council by University of Toronto Professor David K. Foot. The paper discusses projected demographic changes in the province and examines the impact of these changes on labour market growth and on government budgets.

Foot's analysis indicates four significant trends in Ontario's population in the next 25 years. These are:

- average annual population growth of about one per cent projected through the mid-1980s, gradually declining to one-half of one per cent by the end of the century;

- a continuing increase in the percentage of persons aged 65 years and over to a level in excess of 12 per cent at the turn of the century;
- a continuing decrease in the percentage of pre-working age persons;
- a higher proportion of the population of working age throughout the projection period than has ever been experienced in the previous 60 years.

Annual labour force growth, Foot projects, will remain well above one per cent until the mid-1980s and will remain above population growth throughout the projection horizon. "Consequently", he adds, "a general labour shortage in the 1980s and 1990s appears unlikely."

Foot suggests that there are two implications of these projections for labour policy in the province. "First," he says, "more than a million new entrants to the labour force are projected by the end of the century, the majority appearing in the next decade. The challenge of finding gainful employment for these people will not disappear."

Secondly, Foot points out that the aging that is taking place in the population at large will also be reflected in the labour force. "In this case the challenge will be to locate sufficient jobs needing skills and experience commensurate with the age-sex structure of the projected labour force."

The impact of projected demographic changes on unfunded and partially funded pension schemes such as the Canada Pension Plan is ambiguous, Foot says. While an increase in the percentage of the population 65 years and over suggests an increase in pension tax rates of 32 percent over the projection period, the author argues that growth in labour productivity and the transfer of some resources resulting from the declining numbers of pre-working age persons could offset the need for pension tax increases.

Foot's analysis suggests that the government supported health care sector will require greater resources in the future both as a result of population growth and as a result of population aging if the real level of services is to be maintained.

"Maintenance of aggregate per capita real expenditures will be insufficient to maintain the real level of health care services, since it will not be adequate to account for the relatively greater demands placed on the health care sector by an aging population," he says. "There will also have to be some redistribution of services within the health care sector from physician services to hospital services, and from services oriented towards the young to those oriented towards the elderly."

Unlike pension and health care expenditures, Foot says that the demands of the education sector are likely to decrease in relative importance. He notes that the impact of declining enrolments has already been experienced at the elementary level and is commencing to affect secondary education. "Post-secondary education can continue to expect little change in its source population until the 1980s, after which a significant decrease can be expected to occur," he adds.

"The effects of these enrolment projections on the need for teachers, physical facilities and other educational expenditures should be obvious," the author concludes. "These projections," he continues, "imply that resources could be 'released' from this sector for use elsewhere in the economy."

Taking account of the differential costs of providing services to different age groups, Foot suggests that there will be reduced pressure on overall public expenditures for most of the 1980s. He adds, however, that the increasing proportion of the elderly in the population means that "the working-age-population of the 1990s will be required to transfer a larger proportion of their income to the dependants in the population if the current public servicing levels are to be maintained."

Finally, Foot notes that the increasing proportion of elderly in the population and the similar decreasing number of pre-working age persons means that the impact on intergovernmental transfers will be heavily biased towards those levels of government responsible for the aged.

The preliminary results "suggest that local government will become less important compared to the provincial level of government which, in turn may become less important compared to the federal government," the author says.

This paper was prepared under the auspices of the Ontario Economic Council, established in 1962 as an independent public policy institute. The Council undertakes research and policy studies to encourage the optimum development of the human and material resources of Ontario and to support the advancement of all the sectors of the Province. The Council achieves these goals by sponsorship of research projects, publication of studies, and organization of the Outlook and Issues conferences and seminars which are open to the public.

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NOTE: A list of persons to contact for further information, a brief biographical sketch of the author and a selection of quotations from the paper are attached.

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AUTHOR'S BIOGRAPHICAL SKETCH:

David K. Foot is an Associate Professor of Economics in the Department of Political Economy and the Institute for Policy Analysis at the University of Toronto. He was educated at the University of Western Australia and Harvard University where he received his Ph.D. in Economics. Dr. Foot is the co-author of The Ontario Economy 1977-1987, and author of Provincial Public Finances in Ontario both published by the Ontario Economic Council.

Public Policy and Future Population in Ontario (57 pages) is available only at the Ontario Government Bookstore, 880 Bay Street, Toronto, Ontario M7A 1N8. Price: \$2.00. A cheque, or money order, payable to the Treasurer of Ontario must accompany all mail orders.

OTHER RESEARCH REPORTS prepared for the Ontario Economic Council can be obtained from the University of Toronto Press, 5201 Dufferin Street, Downsview, Ontario M3H 5T8; at major booksellers; or, from the Ontario Government Bookstore at the address above.

SELECTED QUOTATIONS:

"Accurate macroeconomic forecasting is essential for economic planning and decision-making in any organization, whether in government (federal, provincial, or local), in government agencies (for example Ontario Hydro), or in private corporations. Since population trends help determine both the supply side (via the labour force) and the demand side (via investment and consumer spending) of the economic environment, population projections are crucial in economic planning. The changing composition of the population and labour force will be especially important to organizations concerned with the production of goods or services that can be identified with specific age groups in society (such as education)." (Pgs. 2-3)

"In 1921 there were 1.8 persons of working age for every non-working age person in the population; this figure rose to 2.1 in 1941 and then declined to 1.5 in 1961. Since then it has been rising, to reach 1.9 by 1976. The projections show a continuing increase to a peak of 2.2 in 1986 and the maintenance of a level between 2.1 and 2.2 throughout the remainder of the century.

This result is a consequence of two opposing developments: a rapid rise, to the highest level yet seen, in the ratio of persons over 64 to the total population, and an even more rapid decline, to the lowest figure ever experienced, in the corresponding ratio for those under 15 years of age. Hence in the 1980s and 1990s the ratio of the population of working age to the 'dependent' population will be higher than at any time in this century. These are the major demographic features against which public policy must be developed in Ontario." (Pg. 17)

"A related issue is the impact of demographic changes on consumption and saving in the economy. A simple life-cycle model of consumption and saving behaviour posits dissaving in early years as an average individual accumulates education, training, and household assets, followed by a period of saving as the individual accumulates assets, which can be consumed over the pensionable years when dissaving again occurs. Such a model suggest that demographic changes will have an ambivalent impact on the saving rate in the future. On one hand an upward pressure can be expected as the most populous age group moves into the traditionally high saving years of their life-cycle. On the other hand the increasing number of elderly will be entering the traditionally high dissaving years of their lifecycle. The overall impact will depend on the relative magnitudes of these countervailing forces." (Pgs. 33-34)

"In aggregating the projected impact of different public expenditure programs on total government expenditures in the province, the relative costs of supporting different age groups in the population become apparent. At current levels, for instance, the per person cost of servicing the elderly is much higher than that of servicing the young; it has been estimated that per person government expenditures are three times as great for older dependants as for youths in the United States and $2\frac{1}{2}$ times as great in Canada. Under these conditions the numerical dependency ratios inaccurately reflect the true impact on total government expenditures." (Pg. 41)

"Post-war events have taught us that surprises are not unusual in demography. However, as if surprises were not perplexing enough, recent experience shows that 'even the inevitable is sometimes unexpected'. The baby-boom, for instance, appears to have caught each succeeding level of the education system unprepared. Another example is the current high levels of youth unemployment. Demographic changes clearly affect the labour force growth and output potential of the economy, the manpower requirements of the labour market, and the budgetary priorities of government. Population projections and an analysis of their policy implications should be an integral part of the development of public policy in Ontario and elsewhere." (Pg. 52)